City of Mesa
Deferred Compensation Committee
MEETING MINUTES
Monday, November 4, 2013, 11:30am
Mesa City Plaza, Suite 130
Personnel Conference Room 2

Members Present:	Members Absent:	Great West:
Chuck Odom (Chair)	Derek Witting	Scott Taylor
Mike Kennington (Co-Chair)	Frank Hoglund	Lisa Tilley
Don Miller	Kimberly Call	
Mary Dellai	Michael Claspell	**Other(s):**
Michele Long		Bill Taebel
Vicki Eden	**Innovest:**	Nikki Rosales
	Wendy Dominguez	
	Jerry Huggins	

Meeting called to order at 11:30am by Mike Kennington

1. **Approval of the August 5, 2013 minutes**

   Don motioned to approve the minutes
   Vicki seconded the motion
   None opposed

2. **Innovest Quarterly Update**

   The Markets

   It was a great quarter that has continued into October. International stocks were up the most at 11.61%. Small cap stocks were the next best place to be, up 10.21%. Large U.S. stocks were up 5.24%. Bonds were only up .57%, but still positive. The month of September went up dramatically, because of the feds discussion that tapering my not occur and that they would continue on their bond buying initiative, until they saw stronger numbers out of the labor market.

   Headwinds

   There is still a lot of uncertainty surrounding the government and the shutdown is estimated to bring the 4th quarter down by .6%, negatively affecting the GDP. The private sector is getting more cautious about the financial outlook of the economy. Global growth has been sluggish. Wage and employment growth has been mild and household income is down. Corporate earnings are decelerating, although 60% of S&P 500 companies that reported their earnings had their third consecutive quarter of record high earnings per share. 70% of companies beat their earnings estimates and 40% beat their revenue estimates, so companies are continuing to do relatively well.

Tailwinds

Consumer health is improving. Credit card debt is down approximately 17%, since the highs in 2008. Gas prices are down and housing is on a comeback. Home prices are hitting highs, which hopefully is not just a bubble, due to the low interest rates. Balance sheets from corporations are very healthy. The ratio of total-debt to total-equity has declined from 220% to 102% for S&P 500 companies. Companies have been paying their debt off and they have cash on the sidelines.

Quarterly Market Summary

Most returns were positive, with the exceptions of U.S. REITs and BC Municipal Bonds, unlike last quarter when only U.S. stocks were positive. Industrials and materials were the best places to be for the quarter with 8.9% and 10.3% return. Some of the worst places to be were consumer staples at less than 1% and telecom at -4.4%. In the bond area, global bonds were the best place to be at 2.8%. There were big gains internationally with Japan up 6.7%, MSCI Pacific ex Japan at 10.4%, U.K. up 12.1%, and Europe ex U.K. at 14.5%.

Menu Coverage

Large Cap Value – Dodge & Cox replaced Davis NY Venture as of August 15, 2013
Mid Cap Value – Janus Perkins will be replaced on November 20, 2013

Annual Fee Review

As of 6/30/2013, the plan assets were $136,600,109. The total for investment, record keeping and administrative costs are 55 basis points, which is about half of what peer groups of similar size plans pay. With the investment consultant and insurance premium added in that brings the total plan cost to 61 basis points.

Asset Allocation

There was not a lot of change in how assets were allocated this quarter. The total assets did increase by $7.3 million, which is just above 5%.

Table of Returns

13 of the 17 active managers outperformed the benchmark or the median managers that they're compared to. Large cap equities had a strong performance with 4 out of 5 active managers outperforming their benchmark. Mid cap equities had mixed performances. Artisan greatly outperformed their benchmark, ranking in the top 4% of managers for mid cap growth. Janus Perkins continued to underperform, but they are being replaced on November 20, 2013. All small cap equities had strong performances. International equities underperformed their benchmarks, but most of them outperformed the median manager. Stable Value Fund had strong performance. Target date funds continue to have solid returns.

Manager Scorecard

	Organization	People	Philosophy & Process	Style Consistency	Asset Base	Performance	Expense	Overall
Fidelity Contrafund				■	■			
Aston: M&C Growth						■		
Mainstay; Lg Cap Growth		■						
Vanguard Md-Cp Index			■					
Artisan: Mid Cap					■			
Perkins MC Value				■	■	■		■
Vanguard Sm-Cp Value			■					
American Funds EuPc					■			
ING: Glbl RE	■					■		■
Mesa/GW Custom Stable Value			■					

All shaded boxes are minor concerns

- Artisan Mid Cap creating concern that it may start to replicate more large cap, than mid cap.
- Oppenheimer Global had minor concern for organization, which has been removed.
- ING Global RE had three minor concerns added this quarter. Overweight in apartments, stock selection in Asia not great & an IPO was done, which will need to be watched.

Report Card

Watch List Criteria	Aston/Montag & Caldwell	MainStay Large Cap Growth	Davis NY Venture	Allianz NFJ Dividend Value	Janus Mid Cap Value	ING Global Real Estate
Manager adherence to style and philosophy					■	
Changes in ownership or key personnel		■			■	
Litigation or regulatory investigation						
Risk adjusted return above median for 5 years			■	■		
Trailing 5 years return below median	■		■	■	■	■
Rolling 3-Yr periods above median	■		■			
Annual periods above median			■		■	

All shaded boxes indicate a FAIL in that criteria

- Fidelity Contrafund was removed from the watch list
- Davis NY Venture was replaced by Dodge & Cox Stock on August 15, 2013
- Janus Mid Cap Value will be replaced on November 20, 2013

Overview of Funds

- **Fidelity Contrafund:** Manager favors companies tied to the internet. Facebook stock doubled this quarter and Tesla Motors was up 8%.
- **Vanguard Institutional Index:** Up 5.23% this quarter. In line with index, but ranked below median. Most active managers outperformed the index.
- **Aston Montag & Caldwell:** Underperformed this quarter. Up 4.06%, which was significantly less than median manager. Ranked in bottom 1% of managers. No Apple in their portfolio and Apple was up 21% in the 3rd quarter. Apple represents over 5.5% of the index. Overweight in consumer staples & stock selection in healthcare hurt their performance.
- **MainStay Large Cap Growth:** Up almost 11%. Beat the benchmark & median manager. Ranked in top 25%. Good stock selection in technology and consumer discretionary stocks. SaleForce.com and Priceline.com were big contributors.
- **Dodge & Cox Stock:** Beat benchmark & peers. Up almost 7%. Ranked in top 6% of large cap value managers. Key contributors were energy sector holdings & some in the financial sector.
- **Allianz NFJ Dividend Value:** Outperformed benchmark, but under median manager. Up 4.36%. Has a prerequisite to own companies that pay dividends, yet dividend paying companies underperformed those non dividend paying companies. Good stock selection where they had investments made.
- **Vanguard Mid Cap Index:** In line with index. Up over 7.5%. Active managers outperformed the indexes on the mid cap side as well.
- **Artisan Mid Cap:** Added minor concern for asset total. Great performance up 15.6%. Ranked in top 4% of mid cap growth managers. Healthcare, technology, consumer discretionary holdings did well.
- **Janus Perkins Mid Cap Value:** Up 4.37%. Still ranked in bottom 1%. Over 10% of funds invested in cash. This fund keeps up in rocky markets, as low beta managers are consistently outperforming at those times.
- **Vanguard Small Cap Index:** In line with index. Up over 9% this quarter. Ranked in 67%. Active managers outperformed the index.
- **Cambiar Small Cap:** Slightly outperformed benchmark, but less than median manager. Overweight in healthcare, energy & industrials helped. 3% cash holding hurt the fund.
- **Kalmar Growth Value Small Cap:** Outperformed benchmark & median manager. Up 13.21%. Ranked in 38%. Stock selection and underweight to financials were the main contributors to the outperformance. All sectors had positive gains in the small cap side.
- **Artisan International:** Underperformed benchmark, but outperformed peers. Up just about 10%, slightly better than median managers. Ranked 38%. Overweight in consumer staples worked against it. Asset allocation held over 5% in cash, which hurt it too.
- **American Funds EuroPacific:** Up almost 9.5%. Underperformed benchmark & median manager. Ranked 61%. Large exposure to emerging markets hurt performance. Holdings in India and South Korea also hurt. India was one of two emerging markets that were negative over 5%.
- **Dodge & Cox International:** Up 11.15%. Underperformed benchmark, but outperformed median manager. Ranked 38%. Emerging market holdings and financial holdings tied to India hurt their performance. Long term performance is exceptional.

- **Oppenheimer Global:** Outperformed benchmark & median manager. Up almost 9.5%. Largest contribution came from the financial sector, as Euro banks did exceptionally well. Europe was up over 14%.
- **PIMCO Total Return:** Outperformed benchmark & median manager. Up 1.11%, which almost double. Ranked in top 5% of core fixed income managers. Exposure & allocations to Treasury Inflation Protected Securities (TIPS) & mortgage-backed securities hurt last quarter, but helped this quarter.
- **ING Global Real Estate:** Positive performance. Up over 2.25%. Ranked 47%. Beat median manager. Most of results were from stock selection in Europe & Asia Pacific regions. Stock selections in Asia have not been good the last couple of years.
- **JP Morgan High Yield:** Slightly underperformed the benchmark & the median. Up almost 2%. Ranked 65%. Security selection in energy, finance and transportation sectors is why it underperformed.
- **Great West Custom Stable Value:** Continues to outperform. Market-to-book value ratio moved back to 100%.
    - Wendy met with Kathy Talker, Great West Portfolio Manager, and Lisa Tilley last week to discuss portfolios and answer questions. Discussed changes that they may want to make going forward.
- **T Rowe Price 2030:** All target date funds did very well. Aggressive equity allocations have provided great returns. Beat the benchmark and median manager. Ranking in the top 4%.

3. Watch List Criteria Improvements

Innovest has reviewed the watch list process and would like to make it a more effective tool for the committee to make decisions about funds.

Today there are 7 criteria, but Innovest has proposed to simplify it to 4.

- Violation of investment guidelines
- Significant increase (decrease) in assets under management
- Investment style stable and consistent (*this is a carryover from previous list*)
- Combined performance measure (*right now there are 4 performance based criteria, but want to condense it to 1*)

Currently, 50% of the watch list criteria are based on performance. You do not typically want to make decisions based on performance, because then you would be buying high and selling low. Decisions should be based on style, consistency & asset flow, because those are precursors to poor performance.

A major improvement would be to track the number of times a fund has been on the watch list. This would coincide with written criteria to review a formal report, once a fund has been on the watch list for a certain number of times, and take some sort of action. The action could be that the committee is going to continue to watch it, but at least it would be in the minutes that an action was taken. This does not prevent the committee from taking action on a fund that is not on the watch list.

Mike motioned to implement a new watch list criteria and allow Innovest to redline the Investment Policy Statement to include the new policies and action guidelines to be presented at the next quarterly meeting.
Michele seconded the motion
None opposed

4. Great West Quarterly Update

Average Participant Balance by Age Group
Scott presented figures of participant numbers, along with account balance, by age groups. Compared to 12 months ago, all age groups increased their number of participants, with the exception of two age groups that decreased by 1 and 4. The majority of the age groups also increased their average account balance per participant. A couple of age groups slightly decreased by less than $100. The 25 & under age group added 7 participants, but their average account balance decreased by almost $2,000. Will try to review these figures every quarter.

3rd Quarter Update for 2013
The new GW contract is now in effect with the lower fee. People can now go online and change their contributions. Scott has also held two meetings to explain the Roth option and how the online deferral works. About 90% of withdrawals will be handled by GW and they will no longer have to wait for signature for incoming rollovers. Plan assets continued to go up, with a 3rd quarter balance of $148,021,158. The number of participant accounts is now at 2,712. Cash flow is significantly better than the 2nd quarter, but still lower than the 1st quarter. The plan tends to see rollovers in the 4th quarter from PS DROP. Payroll contributions look normal for the quarter at $2,186,475, but incoming rollovers seem lower than average.

There were 37 new loans issued. Unforeseeable emergencies were at 4, which is higher than normal, but still low for a plan this size. There were 16 outgoing rollovers, mostly severances, and one QDRO. Six required minimum distributions were issued to people that have retired from the plan, but don't necessarily need the money yet. Most distributions were for retirement and were either a partial lump sum or periodic payments.

NAGDCA Comparison
The 2013 NAGDCA study included 89 governmental 457 plans. The average plan participation rate was 23%. The average plan participation rate for Mesa was 65.7% for the quarter. The average plan participant account balance is $47,000, whereas Mesa participant account balances are at an average of $52,223. The average annual plan participant contribution was $4,219 and Mesa's was around $4,499

Mary asked if the number of employees that are contributing the minimum amount is available. Scott did not have those numbers, but said he could find out how many employees contribute the minimum and maximum amounts.

Investment Advisory Services Usage

Offer 3 different levels of investment services: Guidance, Advice and Managed Accounts. There are 7 participants utilizing the advice service and 359 participants in the fully managed accounts. Could not locate anyone using the guidance account, which is not unusual.

Local Education

Scott was available for service in Mesa for a total of 30 days, 23 of which were at Mesa City Plaza. He held 12 group meetings at various Mesa locations and 3 seminars. Scott indicated that on average he meets with 3-4 people individually to discuss plan options, so it appears his services are still in high demand.

On the Horizon

- GW plans to update the enrollment kit that is given to new employees & others not already participating in the plan. It has been a couple years, since this has been updated.
- One thing that is not a standard service is when a beneficiary has a death benefit. The standard process is to have the employer sign off on it, but it is something that can be outsourced to GW.
- Automatic loan processing by GW. Previously there was no way for them to know if the participant had a loan out anywhere else, but now that all plans are with GW, that is no longer an issue.

2014-2015 Initiatives

GW will let us know when these items become available, as the time nears, but wanted to provide a brief overview, at this time.

- Guided Participant Experience: Typically takes 3-4 phone calls for a participant to obtain a distribution. Piloting a new process where the client service center rep helps the participant complete most of the form on the first call. Plan to roll this out to the government sector in the first quarter of next year.
- Online Document & Message Center: The area that houses statements and newsletters will now be titled Document Center. GW is looking to store confirmations electronically in the future, so the broader title will allow it to be stored in the same spot.
- Mobile Web App: Will start working on a mobile app for the custom websites. Phase one will only have information, but a link to the website will be available if a participant needs to make a transaction.
- Alternative Authentication: This will be rolled out later in the year to provide alternate ways to access your account if you forget your password.
- Google Web Analytics: Plan sponsors can run reports and get a better view of their plan. Will likely be available at the end of 2014.
- Retirement Report Card: This will compare our plan to our peers and show how ready our population is for retirement as a whole.
- E-mail Campaigns: If GW can get e-mail addresses they can start doing e-mail campaigns for us, rather than having to post information ourselves.

5. **Motion to Allow GW to Process Death Benefit Claims and Automatic Loans**
   The committee had a brief discussion about the benefits of allowing GW to handle the Death Benefit Claim Processing and Automatic Loan Processing. GW has a team that handles death benefit claims and transferring this would reduce the workload of our Payroll staff. Staff did not see any negatives to allowing GW to take over both functions.

   Mary motioned to allow Great West to process Death Benefit Claims and Automatic Loan Processing
   Michele seconded the motion
   None Opposed

6. **Next Meeting will take place on February 3, 2014**

7. **Meeting Adjourned at 1:00pm**